

Message Text

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47

ORIGIN OPIC-06

INFO OCT-01 EA-09 ISO-00 EB-07 AID-05 OMB-01 TRSE-00 /029 R

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R 151459Z APR 76

FM SECSTATE WASHDC

TO AMEMBASSY KUALA LUMPUR

UNCLAS STATE 091074

E.O. 11652: N/A

TAGS: EINV

SUBJECT: OPIC INSURANCE - BORDEN, INC. 483-74-133

REF: KUALA LUMPUR 1819

1. EMBASSY MAY WISH TO CONVEY TO APPROPRIATE CENTRAL BANK AND/OR MTI OFFICIALS SUBSTANCE OF FOLLOWING COMMENTS WITH RESPECT TO OPIC INSURANCE OF LOAN GUARANTY FOR WHICH MTI APPROVAL WAS DENIED. (A) IN GUARANTEEING A LOAN TO THE FOREIGN ENTERPRISE, WHETHER FROM LOCAL OR FOREIGN SOURCES, THE INVESTOR UNDERTAKES A PRESENT RISK WHICH AFFECTS ITS FINANCIAL POSITION AND ITS BORROWING CAPACITY. WHILE THE LOAN GUARANTY DOES NOT IMMEDIATELY DRAW ON THE INVESTOR'S OWN FUNDS, IT IS ONLY ONE STEP REMOVED FROM A DIRECT LOAN, AND IT MOBILIZES INVESTMENT FUNDS WHICH MIGHT NOT OTHERWISE BE AVAILABLE TO THE FOREIGN ENTERPRISE. LOANS AND LOAN GUARANTIES ARE SIMILARLY VIEWED BY OPIC, WHICH CHARGES THE SAME FEE PREMIUMS FOR BOTH. MANY INVESTORS ARE PREPARED TO EXTEND COMMERCIAL GUARANTIES ON LOANS BUT ARE WILLING TO EXTEND FULL GUARANTIES ONLY IF THEY CAN INSURE THEIR GUARANTY WITH OPIC AGAINST POLITICAL RISKS. OPIC INSURANCE

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WOULD COMPENSATE THE U. S. INVESTOR FOR LOSSES DUE TO

POLITICAL RISKS ONLY IN THE EVENT THAT THE FOREIGN ENTER-

PRISE DEFAULTED AND THE INVESTOR WERE THEN OBLIGED TO PAY, AND IN EVENT OF PAYMENT BY THE INVESTOR THERE WOULD BE AN INFLOW OF INVESTMENT CAPITAL TO MALAYSIA. (B) IN ADDITION, INVESTORS' GUARANTIES OF LOCAL AND FOREIGN LOANS ARE A VERY COMMON MEANS OF ASSEMBLING CAPITAL FOR OVERSEAS VENTURES AND ARE COMMONLY INSURED BY OPIC IN MANY COUNTRIES. TO THE EXTENT THAT OPIC INSURANCE IS NOT AVAILABLE FOR SUCH GUARANTIES BECAUSE A HOST GOVERNMENT DECLINES TO APPROVE THEM, FOR INVESTMENT PURPOSES THE HOST COUNTRY MAY COMPARE UNFAVORABLY WITH OTHER COUNTRIES WHERE INSURANCE FOR SUCH GUARANTIES MAY BE ISSUED. FOR THESE REASONS, OPIC HOPES THAT MTI WILL RECONSIDER BORDEN'S REQUEST FOR APPROVAL OF INSURANCE FOR ITS GUARANTEE.

2. FYI: SOME COUNTRIES HAVE OBJECTED TO OPIC INSURANCE OF GUARANTIES ON LOCAL LOANS BECAUSE OF SCARCITY OF LOCAL CAPITAL. OPIC IS NOT AWARE THAT MALAYSIA SUFFERS SUCH SCARCITY.

3. EMBASSY'S FEBRUARY 25 MEMO WITH FGA RECEIVED BY OPIC. NO FURTHER CONFIRMATION OF THAT FGA REQUIRED. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INSURANCE, MEMBERSHIP, INVESTMENTS, LOAN GUARANTEES
Control Number: n/a
Copy: SINGLE
Draft Date: 15 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE091074
Document Source: CORE
Document Unique ID: 00
Drafter: PHMCGUIRE:YKR
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760143-0497
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760456/aaaabvsq.tel
Line Count: 84
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN OPIC
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 KUALA LUMPUR 1819
Review Action: RELEASED, APPROVED
Review Authority: oatisao
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUN 2004 by SilvaL0>; APPROVED <10 SEP 2004 by oatisao>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OPIC INSURANCE - BORDEN, INC. 483-74-133
TAGS: EINV, MY, OPIC, BORDEN INC
To: KUALA LUMPUR
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006